

JAN 20 2012

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# A BILL FOR AN ACT

RELATING TO STATE FINANCES.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. Chapter 37, Hawaii Revised Statutes, is amended  
2 by adding a new part to be appropriately designated and to read  
3 as follows:

4                   **"PART . REPORT ON STATE FINANCIAL CONDITION**

5           **§37- - Short title.** This part may be cited as "The Truth  
6 in Accounting Act."

7           **§37- - Findings and purpose.** The legislature finds that  
8 it is necessary to address existing shortfalls of the State  
9 budgeting process. The legislature recognizes that it is prudent  
10 to create a State budget process that requires the State  
11 government, which derives its powers from the consent of the  
12 governed, to fulfill its special responsibility to directly  
13 report on the actions that it takes and the results of those  
14 actions.

15           The legislature finds that the State budget process should  
16 establish a duty upon the State to report the best estimate of  
17 its own financial condition and provide financial transparency.  
18 Furthermore, presenting a comprehensive indication of the total



1 activity of State and the long-term effects of current policy  
2 will greatly benefit the State. The long-term financial  
3 implications of the budgetary process must be shared with the  
4 public and full costing information must be provided in order to  
5 determine accountability and performance measurements.

6 The legislature finds that the governor's and the  
7 legislature's ability to determine compliance with the intent of  
8 the State's balanced budget requirement, which is to preserve  
9 intergenerational equity promulgated by the Governmental  
10 Accounting Standards Board, must be strengthened. The budget  
11 process must transparently report the budget's imposition of  
12 undue burdens for past and current year services upon future  
13 taxpayers, including State residents who, at the time a budget  
14 is enacted into law, are too young to vote. The public must be  
15 able to determine if future budgetary resources will likely be  
16 sufficient to sustain public services and to meet obligations as  
17 they come due.

18 The purpose of this Act is to provide for truth in State  
19 accounting practices so as to increase governmental transparency  
20 and public awareness of the financial condition of the State.

21 **§37- - Definitions.** As used in this part:



1 "Amounts Due Pension Funds" means the Unfunded Actuarial  
2 Accrued Liability for the State Pension Plans, including the  
3 portion of Multiple-employer plans attributed to the State.

4 "All applicable revenues sources" means the following  
5 source revenues:

- 6 (a) Personal Income Tax;
- 7 (b) Corporate Income Tax;
- 8 (c) Corporate Personal Property Replacement Tax;
- 9 (d) General Excise Tax retained by the state;
- 10 (e) Use Tax;
- 11 (f) User Fees;
- 12 (g) Fines and Penalties;
- 13 (h) Investment Income;
- 14 (i) Unencumbered funds provided by other governmental  
15 units; or
- 16 (j) Any other revenue source for which the state has no  
17 ongoing or unfulfilled obligation to any other party.

18 "Assets Restricted By Law or Contract" means restricted  
19 assets as defined by Governmental Accounting Standards Board  
20 concepts outlined in Governmental Accounting Standards Board  
21 Statement 34.



1 "Benefit Enhancements" means the Actuarial Present Value of  
2 Total Projected Benefits attributed to the estimated increase in  
3 the benefits of retirees or beneficiaries granted by the  
4 proposed budget or, proposed or enacted changes to the State  
5 Pension Law. The benefit enhancements that result from plan  
6 members' expected future service amount may be reduced by the  
7 amount of specified revenue sources enacted into law.

8 "Budget fiscal documents" means the estimated Balance  
9 Sheet, the estimated State of Activities, the estimated State of  
10 Cash Flow, the Statement of Fiscal Balance, the Statement of  
11 Fiscal Deficit and the Financial State of the State

12 "Comprehensive Annual Financial Report Preparer" shall be  
13 defined as the State official responsible for preparing the  
14 State's Comprehensive Annual Financial Report.

15 "Capital Assets" shall be defined using Governmental  
16 Accounting Standards Board concepts outlined in Governmental  
17 Accounting Standards Board Statement 34.

18 "Net of Related Debt" shall be defined using Governmental  
19 Accounting Standards Board concepts outlined in Governmental  
20 Accounting Standards Board Statement 34.



1 "Fiduciary funds" shall be defined using Governmental  
2 Accounting Standards Board concepts outlined in Governmental  
3 Accounting Standards Board Statement 34.

4 "Commission" shall be defined as the agency responsible for  
5 preparing budget estimates.

6 "Estimated Statement of Activities" shall be an estimated  
7 Statement of Activities prepared using the Governmental  
8 Accounting Standards Board concepts outlined in Governmental  
9 Accounting Standards Board 34.

10 "Estimated Balance Sheet" shall be an estimated Statement  
11 of Net Assets prepared using the Governmental Accounting  
12 Standards Board concepts outlined in Governmental Accounting  
13 Standards Board 34.

14 "Estimated Statement of Cash Flow" shall be an estimated  
15 Statement of Reconciliation of Statement of Revenues,  
16 Expenditures and Changes in Fund Balances of Governmental Funds  
17 to Statement of Activities prepared using the Governmental  
18 Accounting Standards Board concepts outlined in Governmental  
19 Accounting Standards Board 34.

20 "Estimated Retirement Plans' Assets Gain or Loss" is  
21 defined as the change in the Actuarial Value of Assets at the



1 beginning of the budget period and the Actuarial Value of Assets  
2 at the end of the budget period.

3 "Fiscal Budget Documents" shall be the estimated Balance  
4 Sheet, the estimated Statement of Activities, the estimated  
5 Statement of Cash Flow, the estimated Statement of Fiscal  
6 Balance, the estimated Statement of Fiscal Deficit and the  
7 estimated Financial State of the State.

8 "Government-Wide Generally Accepted Accounting Principles"  
9 or "State Wide Generally Accepted Accounting Principles" shall  
10 be the accounting standards used in the preparation of the  
11 State's government-wide financial statements, using Governmental  
12 Accounting Standards Board concepts outlined in the Governmental  
13 Accounting Standards Board Statement 34. While the Governmental  
14 Accounting Standards Board does not prescribe standards for  
15 preparing governmental budgets, the accounting standards'  
16 concepts shall be applied to the budget documents prepared under  
17 this section.

18 "Increase in Pension Benefits Due" or "Decrease in Pension  
19 Benefits Due" shall be the change in the State's pension plans'  
20 estimated Actuarial Accrued Liability at the beginning of the  
21 budget period and the sum of each pension plan's estimated  
22 Actuarial Accrued Liability at the end of the budget period.



1 "Increase in Other Post-Employment Benefits Due" or  
2 "Decrease in Other Post-Employment Benefits Due" means the  
3 change in the State's Other Post-Employment Benefits plans'  
4 estimated Actuarial Accrued Liability at the beginning of the  
5 budget period and the State's Other Post-Employment Benefits  
6 plans' estimated Actuarial Accrued Liability at the end of the  
7 budget period.

8 "Net Pension Obligation", "Net Other Post Employment  
9 Obligation", "Actuarial Value of Assets", "Actuarial Accrued  
10 Liability" and "Unfunded Actuarial Accrued Liability" "Actuarial  
11 Present Value of Total Projected Benefits" shall be defined  
12 using Governmental Accounting Standards Board concepts outlined  
13 in Governmental Accounting Standards Board Statement 45,  
14 Governmental Accounting Standards Board Statement 25 and  
15 Governmental Accounting Standards Board Statement 27, as amended  
16 by Governmental Accounting Standards Board 50.

17 "Off Balance Sheet Pension Liabilities" shall be the  
18 difference between the State pension plans' estimated unfunded  
19 actuarial accrued liability and the estimated Net Pension  
20 Obligation included in the estimated Balance Sheet.

21 "Off Balance Sheet Other Post Employment Benefit  
22 Liabilities" shall be the difference between the State Other



1 Post-Employment Benefits plans' estimated unfunded actuarial  
2 accrued liability and the estimated Net Other Post Employment  
3 Benefit Obligation included in the estimated Balance Sheet.

4 "Other Post Employment Benefit" shall be defined as other  
5 post-employment benefits, which include retirement benefits  
6 except those considered as pension plans.

7 "Other Funds Available" shall be defined as:

- 8 (a) Funds which result from the actions of another entity  
9 or government;
- 10 (b) Funds received that are held in trust or have a  
11 fiduciary element;
- 12 (c) Pass-through funds or funds received by the state when  
13 acting as an agent or collector for another entity;
- 14 (d) Pension contributions made by state employees not used  
15 to pay pensions or used to purchase assets for the  
16 state's pension funds;
- 17 (e) That portion of sales tax collections which retailers  
18 pay to the state but which will be remitted to home  
19 rule and local governments;
- 20 (f) Court-ordered collections of child support;
- 21 (g) Inter-period borrowings;





1 (h) Prepaid tuition plans; or

2 (i) And any other source of funds for which the state has  
3 an unfulfilled or ongoing obligation.

4 "Reporting Offices" shall be defined as the offices of the  
5 Auditor General, the Governor, the Speaker and Minority Leader  
6 of the House of Representatives, and the President and Minority  
7 Leader of the Senate.

8 "Retirees' Health Care Benefits Due" shall be defined as  
9 the Unfunded Actuarial Accrued Liability for the State Other  
10 Post Employment Benefit Plans, including the portion of  
11 Multiple-employer plans attributed to the State.

12 "State Pension Plans" are the State's Single-Employer  
13 pension plans and the portion of Agent Multiple-Employer pension  
14 plans attributed to the State.

15 "State Other Post Employment Benefit Plans" are the State's  
16 Single-Employer Other Post Employment Benefit plans and the  
17 portion of Agent Multiple-Employer Other Post Employment Benefit  
18 plans attributed to the State.

19 **§37- - Financial Reports Preparation; Timing of**  
20 **Reporting.** (a) Within forty five days of each fiscal year end,  
21 State agencies shall report to the Comprehensive Annual  
22 Financial Report preparer all fiscal information necessary to



1 prepare a comprehensive annual financial report for the prior  
2 fiscal year end. The Comprehensive Annual Financial Report  
3 preparer may require certain State agencies to report the  
4 information prior to the forty five day period under a schedule  
5 established by the Comprehensive Annual Financial Report  
6 preparer. Whenever the Comprehensive Annual Financial Report  
7 preparer determines that a State agency is delinquent in  
8 reporting the information, the Comprehensive Annual Financial  
9 Report preparer shall notify in writing the reporting offices of  
10 the delinquency and post notice of the delay on the  
11 Comprehensive Annual Financial Report preparer's official  
12 website.

13 (b) The Comprehensive Annual Financial Report Preparer  
14 shall publish the Comprehensive Annual Financial Report no more  
15 than ninety days after the end of each State fiscal year. If the  
16 report is not published within that period, the Comprehensive  
17 Annual Financial Report prepare must promptly give notice of  
18 the delay to the reporting offices and post notice of the delay  
19 on the Comprehensive Annual Financial Report preparer's official  
20 website.

21 **§37- - Use of Generally Accepted Accounting Principles.**

22 (a) The financial accounting and reporting standards to be used



1 by all State government and statement agencies shall be in  
2 compliance with accounting standards as prescribed by the  
3 Governmental Accounting Standards Board.

4 (b) The Comprehensive Annual Financial Report shall be  
5 prepared in accordance with the Generally Accepted Accounting  
6 Principles. The Report shall include explanations of any  
7 variance that exists between the estimates adopted by the  
8 legislature for each year, and the actual numbers reported. The  
9 Comprehensive Annual Financial Report Preparer shall, by  
10 administrative rule, determine a time line and protocol for the  
11 publication of this Report within ninety days of the fiscal year  
12 end.

13 **§37- - Appropriations Bills Transparency.** The legislature  
14 shall publish, by means of the Internet on a web page controlled  
15 by the legislature, the text of all appropriations bills. Each  
16 publication shall include embedded time reading until at least  
17 seventy two hours after the time of electronic publication. No  
18 amendment to an appropriation bill shall be considered on second  
19 reading until at least seventy two hours after the amendment has  
20 been published electronically.

21 **§37- - Balanced Budget Calculation; Revenues.** (a) The  
22 Commission shall publish, at the convening of each regular



1 session of the legislature, a report that clearly separates and  
2 distinguishes All Applicable Revenues and Other Funds Available.

3 (b) The Commission shall prepare a calculation to determine  
4 if the proposed budget meets the State constitution balance  
5 budget requirement. All Applicable Revenues shall be included as  
6 available resources for the purpose of calculating the  
7 constitution's balance budget requirement. Other Funds Available  
8 shall not be included as available resources in the budget  
9 estimate.

10 **§37- - Preparation of Fiscal Budget Statements.** (a) As  
11 soon as possible after the proposed budget is introduced, but at  
12 least seventy two hours before the final vote on the budget, the  
13 Commission shall include an estimated Balance Sheet, an  
14 estimated Statement of Activities and estimated Statement of  
15 Cash Flow.

16 (b) The Commission shall also prepare:

17 (1) The Statement of Fiscal Balance which shall include  
18 the columns used in the estimated Balance Sheet, the  
19 Total Net Assets, as determined in the estimated  
20 Balance Sheet, the Off-Balance Sheet Pension  
21 Liability, the Off Balance Sheet Other Post Employment  
22 Benefit liability, and the resulting Fiscal Balance;



- 1           (2) The Statement of Fiscal Deficit which shall include  
2           the columns used in the estimated Statement of  
3           Activities, the change in net assets, as determined in  
4           the estimated Statement of Activities, Benefit  
5           Enhancements, Retirement Plans' Assets Gain or Loss,  
6           Increase or Decrease in Pension Benefits Due, Increase  
7           or Decrease in Other Post Employment Benefits Due, and  
8           the resulting Fiscal Deficit; and
- 9           (3) The Financial State of the State which shall include  
10           amounts reported on the State's Comprehensive Annual  
11           Financial Report for the State's fiscal year two years  
12           prior to the current budget year, the estimated values  
13           from last period's budget, the estimated values from  
14           the current budget period, amounts for what is State  
15           owned in terms of capital assets, other assets derived  
16           from the Total Assets reported on the Statement of Net  
17           Assets/Balance Sheet minus Capital Assets, what the  
18           State owes in the amount of State bonds, including,  
19           but not limited to, General Obligation Bonds and  
20           Special Revenue Bonds, amounts due pension funds,  
21           Retirees' Health Care Benefits Due, and other  
22           liabilities derived by subtracting the State bonds,



1 the Net Pension Obligation and the Net Other Post  
2 Employment Benefit Obligation from the Total  
3 Liabilities reported on the Statement of Net  
4 Assets/Balance Sheet, and an estimate of funds needed  
5 to pay State obligations calculated by subtracting  
6 capital assets and assets restricted by law or  
7 contract from net assets per family, which is derived  
8 by dividing the Government's Financial Position by the  
9 State population estimate as determined by the U.S.  
10 Census Bureau and then dividing by national average  
11 size of a family as determined by the U.S. Census  
12 Bureau.

13 **§37- - Midterm reporting.** The March estimates shall  
14 include a variance report of the ongoing fiscal year's budget  
15 and appropriations.

16 **§37- - Preparation of fiscal budget documents using State**  
17 **Wide-Generally Accepted Accounting Principles.** The Commission  
18 shall publish the fiscal budget statements outlined in this Act  
19 in concert with State Wide-Generally Accepted Accounting  
20 Principles. The fiscal budget statements should display  
21 information about the State as a whole. The fiscal budget  
22 statements should include the primary State and its component



1 units, expect for the fiduciary funds of the primary State and  
2 component units that are fiduciary in nature. The fiscal budget  
3 statements should be prepared using the economic resources  
4 measurement focus and the accrual basis of accounting. The  
5 fiscal budget statements should not be presented using the  
6 current financial resources measurement focus and the modified  
7 accrual basis of accounting, which are used to prepare the  
8 State's governmental funds financial statements. The Commission  
9 shall work with each of the State's pension and Other Post  
10 Employment Benefit plans' actuaries to determine the pension and  
11 Other Post Employment Benefit amounts needed to prepare the  
12 fiscal budget statements.

13       **§37- - Adopting fiscal budget documents.** The legislature  
14 shall not enact any bill to appropriate funds within any fiscal  
15 year prior to their adoption of the joint resolution accepting  
16 the amounts reported on the fiscal budget documents."

17       SECTION 2. If any provision of this Act, or the  
18 application thereof to any person or circumstance, is held  
19 invalid, the invalidity does not affect other provisions or  
20 applications of the Act that can be given effect without the  
21 invalid provision or application, and to this end the provisions  
22 of this Act are severable."



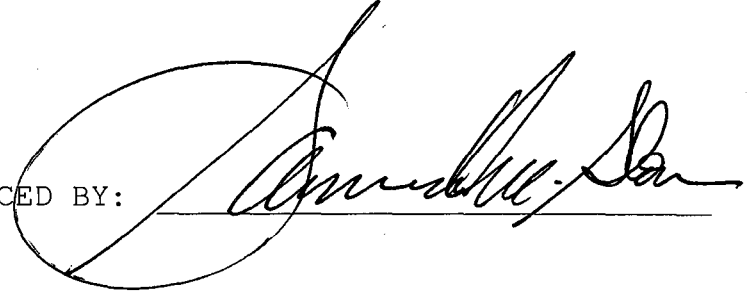
1 SECTION 3. New statutory material is underscored.

2 SECTION 4. This Act shall take effect upon its approval.

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4

INTRODUCED BY:

A handwritten signature in black ink, appearing to read "Amesh Patel", is written over a horizontal line. The signature is stylized and cursive.



# S.B. NO. 2616

**Report Title:**

Truth in Accounting; Reporting; Budget

**Description:**

The purpose of this Act is to develop a truth in accounting process for preparation and reporting of the State budget, which requires that the State government fulfill its responsibility to the public to transparently and timely report upon the actual financial status of the State.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

